



**ECO ORO MINERALS CORP.**

**Management's Discussion and Analysis**

**June 30, 2016**

**(unaudited)**

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# **ECO ORO MINERALS CORP.**

## **Management's Discussion and Analysis**

For the six months ended June 30, 2016

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### **1. INTRODUCTION**

Management's Discussion and Analysis ("MD&A") is intended to help the reader understand Eco Oro Minerals Corp. ("Eco Oro", "we", "our" or the "Company"), our operations, financial performance, and current and future business environment. This MD&A is intended to supplement and complement the unaudited condensed consolidated interim financial statements and notes thereto prepared in accordance with International Financial Reporting Standards ("IFRS") for the six months ended June 30, 2016. This MD&A should be read in conjunction with our annual audited consolidated financial statements for the year ended December 31, 2015, prepared in accordance with IFRS, the related MD&A, and the most recent Annual Information Form, which are available on the SEDAR website at [www.sedar.com](http://www.sedar.com).

This MD&A is prepared as of August 15, 2016. All dollar amounts in this MD&A are expressed in thousands of Canadian dollars, unless otherwise specified. United States dollars and Colombian pesos are referred to as "US\$" and "COP," respectively.

### **2. OUR BUSINESS AND STRATEGY**

Eco Oro is a Canadian publicly-listed, precious metals exploration and development company with operations in Colombia. For over 15 years, the Company's focus has primarily been its wholly-owned, multi-million ounce Angostura gold-silver deposit, located in northeastern Colombia, during which time it has invested a significant amount in the project's development and in that of the surrounding communities. Historically, the Company has aimed to maximize long-term value for its shareholders by developing its Angostura Project and its satellite prospects through to construction and mining. Despite the Company having diligently complied with Colombian regulations and its obligations under mining titles, recent actions of the Colombian State have brought into question the viability of that aim. As explained below, these measures are now the subject of a dispute between Eco Oro and the Colombian Government under the Free Trade Agreement between Canada and Colombia signed on November 21, 2008 and which entered into force on August 15, 2011 (the "Free Trade Agreement").

#### **Investment Dispute**

On March 7, 2016, the Company announced that it had formally notified the Government of Colombia (the "Government") of the existence of a dispute between Eco Oro and the Government under the Free Trade Agreement. The dispute has arisen out of the Government's measures and omissions that have affected the rights granted to Eco Oro to explore and exploit its Angostura Project. These measures include, but are not limited to, a decision rendered by the Colombian Constitutional Court on February 8, 2016, which broadened the restrictions on mining activities in the Santurbán Páramo set out in Ministry of Environment Resolution 2090 of December 2014. In reliance on this decision, the Government recently deprived the Company of its mining rights in respect of 50.73% of its principal mining title, concession contract 3452, notwithstanding specific rights and commitments granted to Eco Oro by concession and law (described in detail below).

While the Company hopes for an amicable resolution to the Dispute, it is considering the impact of the ANM Resolution on the Angostura Project and will pursue its available remedies under the Free Trade Agreement and international law, in relation to which it continues to reserve all of its rights.

### **3. PROJECT REVIEW**

#### **Angostura Project**

The Company's current efforts are focused on the Angostura Project in the Department of Santander, Colombia, approximately 400 km northeast of the capital city of Bogotá. The Angostura Project consists of the main Angostura deposit and five satellite prospects: Armenia, La Plata, Agua Limpia, Violetal and Móngora.

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### *Mining Title*

The Angostura Project's principal mining title is concession contract 3452 (the "Concession"), which was created by the consolidation of ten previously existing titles, two concession contract requests and one exploration license request. The Concession was granted in 2007 over an area of 5,244 hectares that contains the Angostura and Móngora deposits and Violetal prospect, for a period of twenty years (expiring in 2027).

On May 6, 2016, the Company applied to the Colombian National Mining Agency (Agencia Nacional de Minería or "ANM") for a further two-year extension of the exploration phase of its Concession. At the time, Eco Oro's mining rights with respect to the area of the Concession had not been modified by the Colombian Government and were fully in force. On July 26, 2016, however, prior to its decision on the Company's extension request, the ANM wrote to the Company requesting payment of the annual canon on the Concession. The ANM indicated that payment should be made only in relation to 49.27% of the total area of the Concession because the remainder fell within the preservation area of the Santurbán Páramo. On August 5, 2016 the Company responded to the ANM's letter noting that it did not understand the basis for the ANM's position since its rights under the Concession had not been terminated or modified in any way. The Company indicated that it had paid the amounts requested by the ANM on the understanding that its rights would be fully respected, and that it remained willing and ready to pay the canon corresponding to the total area of the Concession. The Company fully reserved its rights under international law and the Free Trade Agreement.

The Company was subsequently served on August 8, 2016 with a decision from the ANM by way of Resolution VSC 829 dated August 2, 2016 (the "ANM Resolution"). The ANM Resolution deprived the Company on August 8, 2016, of its mining rights in respect of 50.73% of the Concession that falls within the preservation zone of the Santurbán Páramo which was established pursuant to Ministry of Environment Resolution 2090 of December 2014 ("Resolution 2090"). In support of this position, the ANM Resolution cited a decision of the Colombian Constitutional Court rendered on February 8, 2016 (the "Constitutional Court Decision"). That decision broadened the restrictions on mining in páramo areas by striking down exceptions to the restrictions on mining in the Santurbán Páramo that were applicable to Eco Oro.

The ANM's Resolution comes five months after the Company announced on March 7, 2016 that it had formally notified Colombia of its intent to submit to arbitration a dispute arising under the Free Trade Agreement between Canada and Colombia (the "Dispute") in connection with Colombia's failure to comply with its obligations under the Free Trade Agreement and international law. Thus, using the Constitutional Court Decision of February 8, 2016 as a pretext, the ANM has now deprived the Company of vital rights under the Concession as well as the returns that would have resulted from the hundreds of millions of dollars of investments that the Company has made for over a decade in reliance upon those rights.

While the Company hopes for an amicable resolution to the Dispute, it is considering the impact of the ANM Resolution on the Angostura Project and will pursue all of its available remedies under the Free Trade Agreement and international law, in relation to which it continues to reserve all of its rights.

### *Mineral Resources*

On June 8, 2015, the Company released an updated mineral resource estimate for its Angostura gold-silver deposit, located in the California mining district in Colombia. As set out in the National Instrument 43-101 *Standards of Disclosure for Mineral Projects* ("NI 43-101") Technical Report filed on July 17, 2015, the resource estimate is based on information from 1,069 diamond drill holes totaling 362,575 meters of drilling, including 96 drill holes totaling 40,468 meters from the Company's infill drilling program conducted from June 2011 to September 2012. However, given the ANM's recent decision to deny Eco Oro's rights in respect of a significant portion of the Concession deemed to be within the limits of the Santurbán Páramo, the resource will be materially affected and should not be relied upon. The Company will need to update the resource estimate based on this decision in compliance with NI 43-101 within 45 days of the notice date.

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### *Regional Park*

In a process separate from the determination of the boundaries of Santurbán Páramo, the Autonomous Regional Corporation for the Defense of the Plateau of Bucaramanga (*Corporación Autónoma Regional para la Defensa de la Meseta de Bucaramanga* or "CDMB") was considering the boundaries of a proposed regional park. In January 2013, the coordinates of the Regional Park of Santurbán (the "Park") were approved by the CDMB. The Company's assessment at the time indicated that the officially-declared Park boundaries did not impede development of the Angostura Project. Indeed, the ANM did not alter Eco Oro's mining titles and concessions as a result of the creation of that Park. The Angostura deposit, the Company's principal asset, covered a total area of 215 hectares of which 193 hectares, or 90%, falls outside of the surface boundaries of the Park.

However, as noted above, the August 2016 ANM Resolution has deprived the Company of its mining rights in respect of 50.73% of the Concession area that falls within the preservation zone of the Santurbán Páramo as established by Ministry of Environment Resolution 2090 of December 2014. This means that the impact of the August 2016 ANM Resolution encompasses not only the areas of páramo delimited by Resolution 2090 but also the previously unaffected areas of the Concession that fell within the Santurbán Regional Park.

### *Permitting*

The Company requested the National Authority for Environmental Licensing (*Autoridad Nacional de Licencias Ambientales* or "ANLA") to provide terms of reference for an Environmental and Social Impact Assessment ("EIA") for an underground operation. In March 2012, the Company received terms of reference for an EIA for the underground Angostura Project that, according to the ANLA, had to consider the delimitation of the Santurbán Páramo. That delimitation was subsequently accomplished through Resolution 2090 of December 2014. That Resolution and the subsequent Law 1753 of 2015 contained exceptions to the restrictions on mining activities in the Santurbán Páramo that applied to Eco Oro.

In January 2016, the Company requested that ANLA provide updated terms of reference for an EIA. These terms of reference were not issued, however, as a consequence of the Constitutional Court Decision of February 8, 2016 that transferred the responsibility for issuing such terms of reference to the regional environmental agency.

### *Other Developments*

In May 2012, the Company applied to the ANM for a two-year extension to its exploration phase of concession 3452. In response to the application, the ANM indicated subsequent to the legally prescribed response period, that approximately 54% of the concession was located in what they regarded as the Santurbán Páramo and, on that basis, extended only the remaining 46% of the concession for two years. The Company filed a motion to reconsider in August 2012 and, in response, the ANM granted the extension sought for concession 3452 in its entirety but indicated that the Company must not conduct any exploration activities in the areas deemed to constitute páramo according to the Atlas of Páramo issued by Von Humboldt Institute until the ultimate boundaries of the Santurbán Páramo ecosystem have been determined. In May 2014, the Company applied to the ANM for a further 2-year extension to its exploration phase of concession 3452. In August 2014, the Company received notice from the ANM that the extension was granted. In July 2013, the Company filed before the ANM a request for the suspension of exploration activities in all the area of concession 3452 until the ultimate boundaries of the Santurbán Páramo have been determined. In December 2013, the ANM issued Resolution 001024, allowing the requested suspension for a 6-month term, from July 1, 2013 until December 31, 2013, clarifying that the suspension would be lifted if the boundaries were determined before the expiration of the term. The Company filed two subsequent exploration activities suspension requests, which were granted by the ANM and finally lifted on December 19, 2014 with Resolution 2090 dated December 19, 2014 that provided the coordinates of the Santurbán Páramo. The Resolution provides that within the Santurbán Páramo there are certain areas where mining can take place ("Mining Permitted Restoration Areas"), subject to stricter environmental controls. A map prepared by the Company showing the general layout of principal mineralized structures relating to the previously-disclosed resource for the Angostura

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deposit in relation to the Santurbán Páramo, Mining Permitted Restoration Areas and previously-declared Santurbán Regional Park was also published by the Company. Pursuant to Law 1753, 2015, known as the "National Development Plan" mining activities are restricted páramo ecosystems, although certain exceptions apply.

On February 9, 2016, the Company announced that the Colombian Constitutional Court had issued Communication No. 4 of 2016 dated February 8, 2016, which indicated that certain provisions of the National Development Plan are unconstitutional. The Court subsequently formally issued ruling C-035 of 2016 (also dated February 8, 2016). Pursuant to this ruling, among other things, the provisions of the National Development Plan that set out certain exceptions to the restrictions on mining in páramo ecosystems were declared unconstitutional. Prior to the ruling, certain mining activities in páramo ecosystems could continue if there was a valid mining title and an environmental license or a similar environmental instrument issued prior to February 9, 2010. In addition, although the Court endorsed the concept of projects of national interest and the creation of a national system to handle them due to their importance, it declared the provisions of the National Development Plan that provided that the National Environmental Licensing Authority (Autoridad Nacional de Licencias Ambientales or "ANLA") would have exclusive authority for licensing such projects, regardless of the size of the project, unconstitutional.

### *Móngora*

Móngora is located within the Angostura Project area 3 km south of the Angostura mineral deposit. It has oxide gold mineralization and deeper sulphide gold mineralization and was discovered in 2008. In March 2012, the Company announced the completion of its initial mineral resource estimate for the Móngora deposit.

### *La Plata*

The La Plata property lies within a mineralized belt related to the northeast-southwest trending La Baja Fault, which has given rise to a number of mineralized occurrences where gold and silver mineralization is associated with flexures along the main fault. Drilling at La Plata carried out by the Company in 2010 and 2011 encountered good grade mineralization well suited for underground mining and highlighted very high-grade silver mineralization. No drilling has been conducted on the property since 2011.

In February 2012, the Company received notice that Sociedad Minera La Plata Ltda. ("SMLPL") was initiating an arbitration pursuant to the arbitration clause contained in the mining title assignment agreement (the "La Plata Assignment Agreement") pursuant to which the Company acquired its La Plata property from SMLPL. An arbitration panel was constituted and there were ten hearings between December 2012 and July 2013. The arbitration panel rendered its decision in September 2013 finding that the two year statute of limitations applied to the La Plata Assignment Agreement and the first of three subordinate partial assignment agreements, in respect of 25% of the property, and found in favour of the Company in that regard. However, the arbitration panel found that the statute of limitations did not apply to the second and third subordinate partial assignment agreements (the "Annulled Agreements"), in respect of 75% of the property, and declared a relative nullity in respect of these agreements with respect to the amounts greater than 500,000 Colombian pesos. The panel ordered SMLPL to pay the Company 1,677,500,686 Colombian pesos (plus interest and indexation), which relates to the amount paid to SMLPL by the Company under each of the Annulled Agreements (less 500,000 Colombian pesos X 2), within thirty days of the decision becoming firm. The arbitration panel recognized in its decision that it lacked the power to order the relevant Colombian authorities to annul the administrative acts relating to the property and related environmental management plan registered in the name of the Company. The La Plata property and related environmental management plan remain in the name of the Company. In October 2013, the Company filed with the Judicial District Tribunal Superior Court of Bucaramanga a motion for annulment of the arbitration panels' decision on the basis, among other things, that: the arbitration tribunal lacked jurisdiction to rule on the subordinate partial assignment agreements as they did not contain arbitration clauses; and the statute of limitations should have been applied to the Annulled Agreements as they were subordinate to the La Plata Assignment Agreement. In February 2014, the Company was notified of the decision rendered by the Judicial District Tribunal Superior Court with respect to the motion for annulment and the Company was not successful. In August 2014, the Company filed with the Supreme Court an action (Acción de Tutela or "Tutela Action") seeking the revocation of the decisions of the arbitration panel

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and Judicial District Tribunal Superior Court. In September 2014, the Company was notified of the decision rendered by the Supreme Court in the Tutela Action and the Company was not successful. This decision was appealed to the Supreme Court and, in November 2014, the Company was notified of the decision rendered by the Supreme Court in the appeal and the Company was not successful. To date, the ANM has rejected SMLPL's request to register the decision of the arbitration panel and cancel registration of the Annulled Agreements and, as such, the Company remains the registered owner of the entire La Plata property. On July 21, 2015, the Company received notice that SMLPL had filed a Tutela Action with the Tenth Criminal Circuit Court of Bucaramanga seeking an order that the ANM register the arbitration decision and its 75% interest in the La Plata property. On August 4, 2015, the Company was notified of the decision rendered by the Court that SMLPL was not successful and the Tutela Action was dismissed. As the La Plata Assignment Agreement (and the first of three subordinate partial assignment agreements) remains valid, if necessary, the Company may commence a legal action against SMLPL to require SMLPL to comply with its obligations thereunder, including the obligation to legally assign the remaining portion of the La Plata property, which was the subject of the Annulled Agreements, to the Company.

### *Qualified Person*

Mark Moseley-Williams, President and CEO of Eco Oro and a qualified person as that term is defined in NI 43-101, has reviewed and verified the technical information contained in this MD&A.

## **4. CHANGES IN MANAGEMENT & BOARD**

On October 7, 2015, the Company appointed Mark Moseley-Williams as the Company's President and Chief Operating Officer. On January 5, 2016, Mr. Moseley-Williams was promoted to President and Chief Executive Officer of the Company.

On April 2, 2016, Eduardo Jaramillo has resigned as a member of the Company's Board of Directors. Juan Esteban Orduz did not stand for re-election to the Company's Board of Directors at the last annual general meeting of shareholders and his effective resignation date was June 2, 2016.

On July 26, 2016, David Kay has been appointed to the board of directors of the Company. Mr. Kay has been appointed to the Board pursuant to the Company's investment agreement with Trexs Investments, LLC, an entity managed by Tenor Capital Management Company, L.P. ("Tenor"), which was announced on July 22, 2016.

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### 5. RESULTS OF OPERATIONS

#### Three months ended June 30, 2016

	For the three months ended		Change	
	June 30, 2016	June 30, 2015	in \$	Note
<b>Exploration and evaluation expenses:</b>				
Administrative expenses	\$ 247	\$ 428	\$ (181)	a
Depreciation	79	105	(26)	a
Field expenses	-	8	(8)	a
Environmental expenses	117	41	76	b
Other exploration and evaluation expenses	-	(81)	81	
Salaries, benefits and share-based compensation	460	529	(69)	a
Surface rights	5	194	(189)	a
	<b>908</b>	<b>1,491</b>	<b>(583)</b>	
<b>General and administrative expenses:</b>				
Audit, legal and other professional fees	615	208	407	c
Other administrative expenses	37	66	(29)	d
Regulatory and transfer agent fees	9	12	(3)	d
Rent	-	8	(8)	d
Salaries and benefits	37	112	(75)	d
Share-based compensation	50	93	(43)	e
Travel	2	89	(87)	d
	<b>750</b>	<b>588</b>	<b>162</b>	
<b>Total expenses before other items</b>	<b>\$ 1,658</b>	<b>\$ 2,079</b>	<b>\$ (421)</b>	
<b>Other items</b>				
Finance cost	83	116	(33)	
Foreign exchange loss (gain)	16	(159)	175	f
Other income	(2)	(1)	(1)	
	<b>(58)</b>	<b>(44)</b>	<b>(14)</b>	
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>\$ 1,235</b>	<b>\$ 2,594</b>	<b>\$ (1,359)</b>	

- The overall decrease in exploration and evaluation expenses was primarily due to the significant reduction in exploration and evaluation activities during the three months ended June 30, 2016. The decrease in exploration and evaluation expenses in the current period was also due to the continuation of cost reduction initiatives implemented by the Company.
- Site restoration and maintenance expenses include the impact of the current year's changes in the site restoration provision. The cost estimates are updated annually to reflect known developments and are estimated based on the Company's interpretation of current regulatory requirements and constructive obligations. The increase during the three months ended June 30, 2016 was due mainly to the recognition of constructive and legal obligations relating to certain environmental rehabilitation measures recommended by regulatory authorities that resulted from damages caused by severe weather conditions.
- The increase in audit, legal and other professional services in the current period was primarily due to the increase in legal fees which related to the legal dispute with the Colombian Government.
- The overall decrease in general and administrative expenses in the current period was due to the continuation of cost reduction initiatives implemented by the Company. In addition, salaries and benefits in the head office decreased significantly due to fewer full-time employees in the Company.
- Share-based payments decreased primarily due to a fewer number of options granted and vested during the three months ended June 30, 2016.
- The foreign exchange loss was primarily a result of the retranslation of the Company's net monetary liability position denominated in COP into Canadian dollars.



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### Six months ended June 30, 2016

	For the six months ended		Change	
	June 30, 2016	June 30, 2015	in \$	Note
<b>Exploration and evaluation expenses:</b>				
Administrative expenses	\$ 520	\$ 755	\$ (235)	a
Depreciation	165	225	(60)	a
Field expenses	24	28	(4)	a
Environmental expenses	108	(37)	145	b
Other exploration and evaluation expenses	65	86	(21)	a
Salaries, benefits and share-based compensation	939	1,110	(171)	a
Surface rights	29	312	(283)	a
	<b>1,850</b>	<b>2,746</b>	<b>(896)</b>	
<b>General and administrative expenses:</b>				
Audit, legal and other professional fees	742	303	439	c
Other administrative expenses	84	88	(4)	d
Regulatory and transfer agent fees	46	58	(12)	d
Rent	5	15	(10)	d
Salaries and benefits	88	235	(147)	d
Share-based compensation	76	112	(36)	e
Travel	16	152	(136)	d
	<b>1,057</b>	<b>963</b>	<b>94</b>	
<b>Total expenses before other items</b>	<b>\$ 2,907</b>	<b>\$ 3,709</b>	<b>\$ (802)</b>	
<b>Other items</b>				
Equity tax	113	147	(34)	
Finance cost	171	231	(60)	
Foreign exchange loss (gain)	53	(735)	788	f
Gain on disposal of plant and equipment	(137)	-	(137)	
Other income	(5)	(6)	1	
	<b>195</b>	<b>(363)</b>	<b>558</b>	
<b>NET LOSS FOR THE PERIOD</b>	<b>\$ 3,102</b>	<b>\$ 3,346</b>	<b>\$ (244)</b>	

- The overall decrease in exploration and evaluation expenses was primarily due to the significant reduction in exploration and evaluation activities during the six months ended June 30, 2016. The decrease in exploration and evaluation expenses in the current period was also due to the continuation of cost reduction initiatives implemented by the Company.
- Site restoration and maintenance expenses include the impact of the current year's changes in the site restoration provision. The cost estimates are updated annually to reflect known developments and are estimated based on the Company's interpretation of current regulatory requirements and constructive obligations. The increase during the six months ended June 30, 2016 was due mainly to the recognition of constructive and legal obligations relating to certain environmental rehabilitation measures recommended by regulatory authorities that resulted from damages caused by severe weather conditions.
- The increase in audit, legal and other professional services in the current period was primarily due to the increase in legal fees which related to the legal dispute with the Colombian Government.
- The overall decrease in general and administrative expenses in the current period was due to the continuation of cost reduction initiatives implemented by the Company. In addition, salaries and benefits in the head office decreased significantly due to fewer full-time employees in the Company.
- Share-based payments decreased primarily due to a fewer number of options granted and vested during the six months ended June 30, 2016.
- The foreign exchange loss was primarily a result of the retranslation of the Company's net monetary liability position denominated in COP into Canadian dollars.

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### 6. SELECTED FINANCIAL INFORMATION

<i>As at:</i>	<b>June 30, 2016</b>	<b>December 31, 2015</b>	<b>December 31, 2014</b>
Total assets	\$ 26,980	\$ 28,805	\$ 26,510
Total long-term liabilities	4,201	3,886	5,101
<b>For the six months ended:</b>			
	<b>June 30, 2016</b>	<b>June 30, 2015</b>	<b>June 30, 2014</b>
Loss and comprehensive loss	\$ 3,056	\$ 2,249	\$ 4,429
Basic and diluted loss per share	0.03	0.04	0.05

The decline in total assets in 2016 when compared to 2015 is mainly due to lower cash and cash equivalent balances as funds were spent on exploration and evaluation expenses and general working capital items while no financings were done during six months ended June 30, 2016. The net increase in total assets in the 2015 is partially due to the fact that cash outflows from operating activities were more than offset by the cash received from financing activities during 2015 and the effect of changing functional currency on the exploration and evaluation assets. The Company has no operating revenue and relies primarily on equity financing to fund its activities. There have been no distributions or cash dividends declared for the periods presented.

### 7. SUMMARY OF QUARTERLY RESULTS

	<b>Three months ended</b>			
	<b>June 30, 2016</b>	<b>March 31, 2016</b>	<b>December 31, 2015</b>	<b>September 30, 2015</b>
Exploration and evaluation expenditures	\$ 908	\$ 942	\$ 1,276	\$ 1,087
General and administrative expenses	750	307	383	978
Other items	(58)	253	(395)	(1,034)
Net loss for the period	1,235	1,821	1,264	1,031
Basic and diluted loss per share	0.02	0.02	0.01	0.01

  

	<b>Three months ended</b>			
	<b>June 30, 2015</b>	<b>March 31, 2015</b>	<b>December 31, 2014</b>	<b>September 30, 2014</b>
Exploration and evaluation expenditures	\$ 1,496	\$ 1,255	\$ 4,709	\$ 1,617
General and administrative expenses	589	375	499	443
Other items	(39)	(319)	(1,166)	(333)
Net loss for the period	2,046	1,311	4,042	1,727
Basic and diluted loss per share	0.02	0.02	0.05	0.02

Exploration and evaluation costs started to decline in the fourth quarter of 2014 as the Company focused on various external and internal technical studies as well as continued with certain cost reduction initiatives. Exploration and evaluation costs increased in the fourth quarter of 2014 due to the recognition of a rehabilitation provision of \$4,221 as a result of certain environmental rehabilitation measures recommended by regulatory authorities. This increase was partially offset by a net decrease in salaries as a result of a reduction in the standard work week during the quarter and additional severance payments made.

General and administrative costs remained at relatively constant levels in the past eight quarters, except in third quarter of 2015 which was mainly due to 2,167,000 options granted in September 2015. The decrease in general and administrative costs started from the second quarter of 2014, except for the third quarter of 2015, was mainly due to the lower share-based expense associated with the reversal of expense of unvested options related to the former CEO and former CFO who left the Company in the quarter as well as a result of having fewer employees.

There is a quarterly fluctuation in "Other items" primarily due to the fluctuation in exchange rates for the USD and COP.

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**8. LIQUIDITY AND CAPITAL RESOURCES**

**Liquidity and Cash Flows**

	Three months ended			
	June 30, 2016	March 31, 2016	December 31, 2015	September 30, 2015
Cash used in operating activities	\$ (662)	\$ (1,188)	\$ (1,643)	\$ (723)
Cash flows from (used in) financing activities	-	-	159	3,064
Cash flows from (used in) investing activities	179	35	3	(13)
Effects of exchange rate changes on cash and cash equivalents	55	(57)	412	(1,340)
Total cash flow	(428)	(1,210)	(1,069)	988
Cash and cash equivalents	31	459	1,669	2,738
Guaranteed investment certificate	-	-	35	33
Working capital (deficiency)	(3,067)	(1,758)	(565)	963

	Three months ended			
	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014
Cash used in operating activities	\$ (1,967)	\$ (1,070)	\$ (108)	\$ (3,491)
Cash flows from (used in) financing activities	-	2,720	-	-
Cash flows from (used in) investing activities	(23)	(21)	(18)	(5)
Effects of exchange rate changes on cash and cash equivalents	(215)	(402)	(861)	601
Total cash flow	(2,205)	1,227	(987)	(2,895)
Cash and cash equivalents	1,750	3,955	2,728	4,076
Guaranteed investment certificate	36	34	33	34
Working capital	(1,158)	860	(249)	682

During the first and third quarter of 2015, the Company completed a private placement for net aggregate proceeds of \$2,722 and \$3,301, respectively. Cash flows used in operating activities for the third quarter of 2014 are generally higher compared to other quarters due to the payment of equity tax installments. The trend of lower quarterly cash burn is primarily due to the implementation of cost reduction initiatives commencing in the second quarter of 2013 that deferred of all discretionary spending on the Angostura Project and decreased general and administrative expenses in both Canada and Colombia through reductions in salaries and benefits, rent and other administrative expenses.

The Company has not yet achieved profitable operations and expects to incur further losses in the development of its business. Subject to a satisfactory resolution of the investment dispute on or before the end of the third quarter of fiscal 2016, management's current forecasts includes cash outflows to continue its trend consistent with the last four quarters and cash inflows from anticipated future equity financing(s).

In order to strengthen the financial position of the Company in order to provide funding to pursue a satisfactory resolution to the investment dispute, and for general working capital purposes, the Company entered into an investment agreement on July 22, 2016 (the "Agreement") with Trexs Investments, LLC, an entity managed by Tenor Capital Management Company, L.P., with respect to an aggregate investment in the Company of US\$14 million (the "Investment"). Pursuant to the Agreement, the proceeds of the Investment will be used by the Company to fund the Company's arbitration with Colombia under the Free Trade Agreement between Canada and Colombia. The Investment is going to occur in two tranches. The first tranche, is for US\$3 million, which US\$3 million was received subsequent to June 30, 2016, and the second tranche is for US\$11 million. The Company will call a meeting of its shareholders to obtain shareholder approval for the issuance of common shares pursuant to Tranche 2. Subject to closing Tranche 2 of the Investment, the Company expects to remain in a working capital position for the remainder of the 2016 fiscal year given.

The ability of the Company to continue as a going concern is dependent upon the Company's ability to: commence the development of its property, which would include completing various technical and environmental studies, obtaining the necessary permits and other regulatory approvals; achieve future profitable operations or obtain relief pursuant to the Free Trade Agreement. These matters result in material uncertainties that may cast significant doubt on whether the Company will continue on as a going concern. Other risk factors include: the outcome and

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timing of the investment dispute, metal prices, the political risk of operating in a foreign country including, risks relating to permitting given the recent Constitutional Court ruling on the National Development Plan and the ANM Resolution of August 2, 2016. For a more detailed list of risk factors, see the Company's most recent Annual Information Form.

### Commitments, Contractual Obligations & Contingencies

#### *Commitments & Contractual Obligations*

	2016	2017	2018	2019	2020 and thereafter	Total
Site restoration provision <sup>(1)</sup>	\$ 314	\$ 586	\$ 1,373	\$ 1,300	\$ 1,814	\$ 5,387
Wealth tax <sup>(2)</sup>	133	100	-	-	-	233
	<b>\$ 447</b>	<b>\$ 686</b>	<b>\$ 1,373</b>	<b>\$ 1,300</b>	<b>\$ 1,814</b>	<b>\$ 5,620</b>

1) Represents the undiscounted cash flow.

2) Represents the estimated wealth tax payments based on the Company's net equity position as at December 31, 2015.

#### *Contingencies*

The Company is, from time to time, involved in various claims, legal proceedings and complaints arising in the ordinary course of business. We have disclosed certain of these uncertainties in note 10 of our unaudited condensed interim consolidated financial statements. The Company does not believe that adverse decisions in any other ongoing, pending or threatened proceedings related to any matter, or any amount which it may be required to pay damages in any form by reason thereof, will have a material adverse effect on the financial condition or future results of operations of the Company. In addition, any adverse decision in resolving the Dispute under the Free Trade Agreement through an arbitration process would have a material adverse effect on the Company.

#### **Outstanding Share Data**

The Company's authorized share capital consists of an unlimited number of common shares issued without par value. The Company has issued warrants for the purchase of common shares and also has a stock option plan.

#### During the six months ended June 30, 2016

46,666 common shares were issued in exchange of 120,000 options; as a result of the cashless exercise of options;

63,500 warrants expired unexercised; and

2,370,002 options expired unexercised.

#### Subsequent to June 30, 2016

- Pursuant to the investment agreement with Trexs Investments, LLC, the Company issued 10,608,225 common shares, which represents 9.99% of the Company's issued and outstanding shares, to Trexs Investments, LLC; and
- 9,333 options expired unexercised.

The following are outstanding as at August 11, 2016:

Common shares	106,188,435
Shares issuable on the exercise of outstanding stock options	4,342,834

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For the six months ended June 30, 2016

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### 9. FINANCIAL INSTRUMENTS

In the normal course of business, the Company is inherently exposed to certain financial risks, including market risk, credit risk and liquidity risk, through the use of financial instruments. The timeframe and manner in which the Company manages these risks varies based upon management's assessment of the risk and available alternatives for mitigating risk. The Company does not acquire or issue derivative financial instruments for trading or speculative purposes. All transactions undertaken are to support the Company's operations. These financial risks and the Company's exposure to these risks are provided in various tables in note 12 of our unaudited condensed interim consolidated financial statements for the six months ended June 30, 2016. For a discussion on the significant assumptions made in determining the fair value of financial instruments, refer also to note 3(d) of the consolidated financial statements for the year ended December 31, 2015.

### 10. TRANSACTIONS WITH RELATED PARTIES

#### Key management personnel

Key management personnel include the members of the Board of Directors and executive officers of the Company.

	For the six months ended	
	June 30, 2016	June 30, 2015
Short-term benefits	\$ 219	\$ 366
Share-based payments	58	63
	\$ 277	\$ 429

#### Other related parties

The aggregate value of transactions with other related parties, including entities over which key management personnel have control or significant influence, is as follows:

	For the six months ended	
	June 30, 2016	June 30, 2015
<b>Fintec Holdings Corp. ("Fintec")</b>		
Director's fees		
Management fees	\$ 60	\$ 121
<b>Quantum Advisory Partners LLP ("Quantum")</b>		
Management and accounting services	\$ 86	\$ 95
<b>James H. Atherton Law Corporation ("Law Corp")</b>		
Legal services	\$ 39	\$ 63

Fintec is a company owned by the Company's Executive Co-Chairman. The services provided by Fintec were in the normal course of operations related to director and CEO matters.

Quantum is a partnership whose incorporated partner is the Company's Chief Financial Officer (CFO). The services provided by Quantum were in the normal course of operations related to accounting and CFO services.

Law Corp. is a professional corporation owned by the Company's former Corporate Secretary. The services related to day-to-day legal services provided to the Company.

At June 30, 2016, \$85 is due to the officers of the Company which was included in trade and other payables (December 31, 2015 – \$43).

## **11. CRITICAL ACCOUNTING ESTIMATES**

The preparation of our consolidated financial statements requires management to use judgment and make estimates and assumptions that affect the reported amounts assets and liabilities and disclosures of contingent liabilities at the date of the financial statements and the reported amount of expenses during the period. Actual results could materially differ from these estimates. Refer to note 2 of our annual audited consolidated financial statements for the year ended December 31, 2015 for a more detailed discussion of the critical accounting estimates and judgments.

## **12. CHANGES IN ACCOUNTING POLICIES**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for accounting periods beginning on or after January 1, 2017. Updates which are not applicable or are not consequential to the Company have been excluded thereof. The following have not yet been adopted by the Company and are being evaluated to determine their impact:

- IFRS 15 Revenue from Contracts with Customers
- IFRS 9 Financial Instruments

For a more detailed discussion of changes in accounting policies, refer to note 3 of our unaudited condensed consolidated interim financial statements.

## **13. INTERNAL CONTROL OVER FINANCIAL REPORTING**

### **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by the Company under Canadian Securities laws is recorded, processed, summarized and reported within the time periods specified under those laws and include controls and procedures designed to ensure such information is accumulated and communicated to management, including the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), to allow timely decisions regarding required disclosure.

Management, with the participation of the Chief Executive Officer and the Chief Financial Officer, has evaluated the design and effectiveness of the Company's disclosure controls and procedures as of June 30, 2016, and based upon this evaluation, the CEO and the CFO have concluded that these disclosure controls and procedures, as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, are effective for the purposes set out above.

### **Internal Controls over Financial Reporting**

Management is responsible for the establishment, maintenance and testing of adequate internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company's management and the board of directors do not expect that its disclosure controls and procedures or internal controls over financial reporting will prevent all errors or all instances of fraud. Control system, no matter how well designed and operated, can provide only reasonable (not absolute) assurance that the control system's objectives will be met.

Further, the design, maintenance and testing of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs.

Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control gaps and instances of fraud have been detected. These inherent limitations include the reality that judgment in decision-making can be faulty, and that simple errors or mistakes can occur. Controls

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can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design, maintenance and testing of any system of controls is based in part upon certain assumptions about the likelihood of future events, and any control system may not succeed in achieving its stated goals under all potential future conditions.

Management, with the participation of the Chief Executive Officer and the Chief Financial Officer, conducted an evaluation of the design and the effectiveness of the Company's internal control over financial reporting as of June 30, 2016 based on Internal Control – Integrated Framework that was updated in 2013 (originally published in 1992) by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, management concluded that the Company's internal control over financial reporting, as defined by National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings, is effective to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS.

There has been no change in our internal controls over financial reporting during the year ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting, nor were there any material weaknesses in the Company's internal controls identified requiring corrective actions.

### **14. RISKS AND UNCERTAINTIES**

The business of the Company is subject to a variety of risks and uncertainties. For a discussion of the risks faced by the Company, please refer to the most recent Annual Information Form. These risks could materially adversely affect the Company's future business, operations and financial condition and could cause such future business, operations and financial condition to differ materially from the forward-looking statements and information contained in this MD&A and as described in under "Forward-Looking Statements" found herein.

### **15. FORWARD-LOOKING STATEMENTS**

Certain statements included or incorporated by reference in this Annual Information Form constitute forward-looking statements. Forward-looking statements include, but are not limited to, statements with respect to the timing of the settlement of investment dispute under the Free-trade Agreement, the Company's ability and plans for advancing the Angostura Project and future announcements relating thereto, future price of gold and silver, the estimation of mineral resources, the realization of mineral resource estimates, the timing and amount of estimated future production, anticipated costs of production, estimated capital expenditures, estimated internal rates of return, success of exploration activities, currency fluctuations, requirements for additional capital, government regulation of mining operations and environmental risks or claims. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Such factors include, among others, risks relating to the outcome and timing of the investment dispute, Company's ability to commence production and generate material revenues or obtain adequate financing for its planned exploration and development activities; actual results of current exploration activities; conclusions of economic evaluations; changes in project parameters as plans continue to be refined; future prices of gold and silver, possible variations in ore reserves, grade or recovery rates; failure of plant, equipment or processes to operate as anticipated; risks related to fluctuations in the currency market, risks related to the business being subject to environmental laws and regulations which may increase costs of doing business and restrict the Company's operations; risks relating to all the Company's properties being located in Colombia, including political, economic and regulatory instability; accidents, labour disputes and other risks of the mining industry; delays in obtaining governmental approvals or financing or in the completion of development or construction activities, as well as those factors discussed in the section entitled "Risk Factors" below. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended.

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There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. The Company's forward-looking statements are based on the beliefs, expectations and opinions of management as of the date the statements are made, including, without limitation, the assumed long-term price of gold, that the Company can access financing, that all required permits and approvals for development of its mineral properties will be received and that the political environment in Colombia will continue to support the development and operation of mining projects, and the Company does not assume any obligation to update any forward-looking statements if circumstances or management's beliefs, expectations or opinions should change, except as required by law. For the reasons set forth above, readers should not place undue reliance on forward-looking statements.



